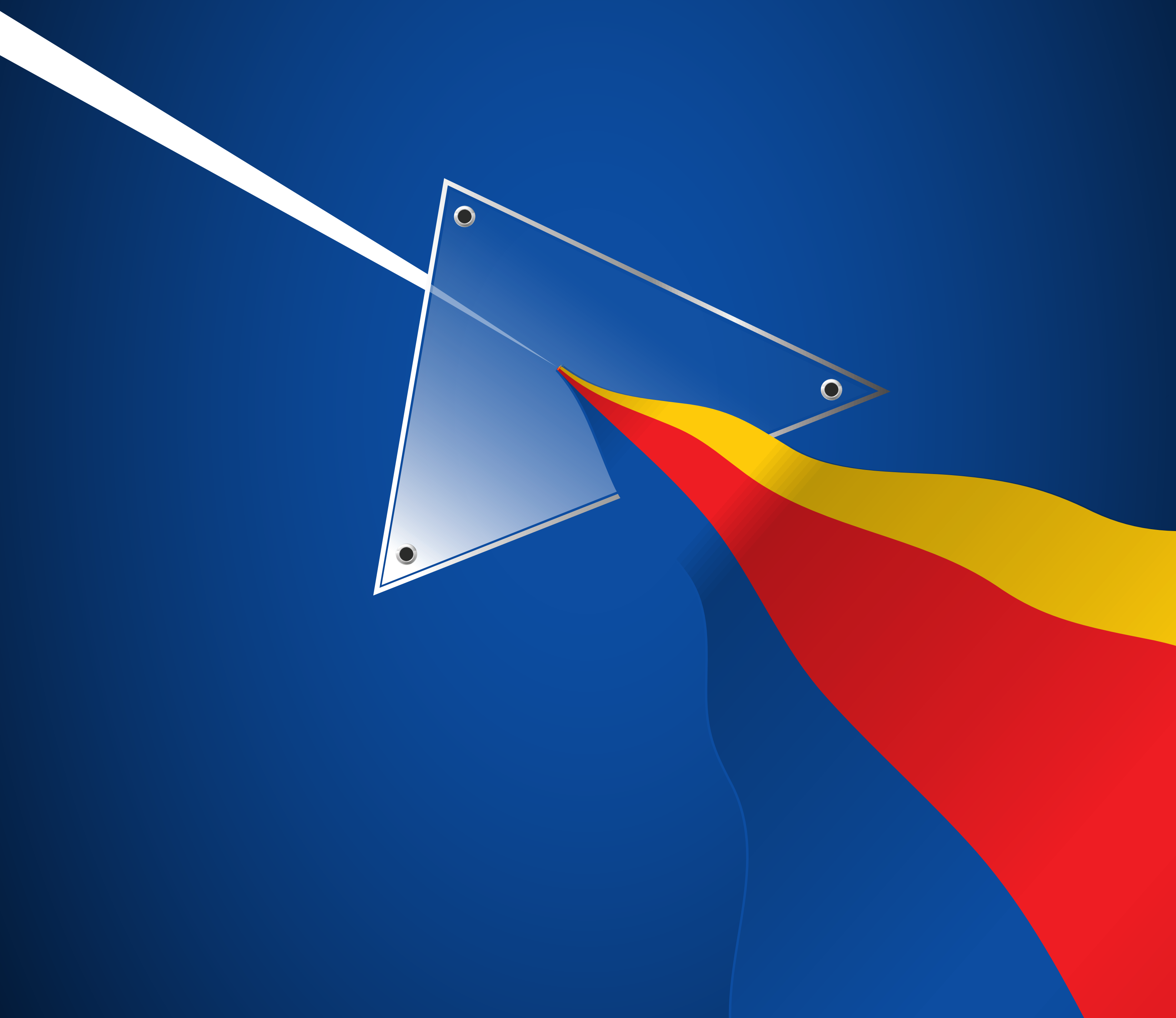

Annual report and financial statements for the year ended 31 March 2013

GUERNSEY POST

CORPORATE DETAILS

Directors:
Dudley R Jehan (Chairman)
Boley Smillie (Chief Executive)
Richard J Hemans (Finance)
Steve Hannon (Non-Executive)
Andrew Duquemin (Non-Executive)
Stuart Le Maitre (Non-Executive)
Simon Milsted (Non-Executive)

Auditors:
KPMG Channel Islands Limited
Chartered Accountants
PO Box 20
20 New Street
St Peter Port
GUERNSEY
GY1 4AN

Actuaries:
BWCI Consulting Limited
Actuaries and Consultants
PO Box 68
Albert House
South Esplanade
St Peter Port
GUERNSEY
GY1 3BY

Registered office:
Envoy House
La Vrangue
St Peter Port
GUERNSEY
GY1 1AA

Greffe Registration Number: 38693

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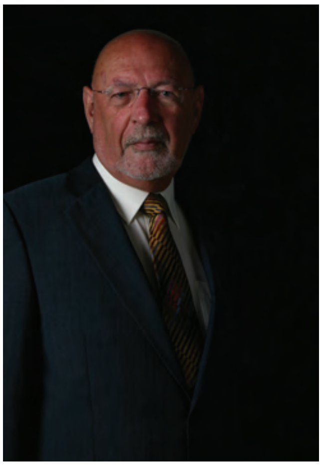
GUERNSEY POST



CHAIRMAN'S STATEMENT

Over the last two years the Board has overseen a significant transformation plan, specifically designed to counter the negative financial impact of the loss of Low Value Consignment Relief (LVCR) and declining core mail volumes.

The financial consequence of these developments has been severe; revenue has declined by £19 million equating to a 37% reduction over a twelve month period. The actions devised by the Board to reduce the cost base and to concentrate our commercial activities on new profitable growth have been vital in our task of securing the future sustainability of the business. It is in the context of these challenges that I am delighted to report an improvement in our profit for the last financial year, the Company having made a profit before tax of £0.7m, which represents a £0.2m improvement on the previous year.

It is entirely appropriate to recognise the contribution of our employees towards the achievement of this excellent financial performance. Despite the fact that it has been an extremely uncertain period for the Company, our employees have risen to the challenge and displayed a resolute determination to achieve success, for which the Board is extremely grateful.

CAPITAL STRUCTURE

Over the last two years the Board has kept the matter of its capital under close scrutiny, specifically in the context of ensuring that the assets of the business are matched to future funding requirements. Following the £5m return of capital approved by the Board in June 2012 and executed in January 2013, the Board undertook a further review of its capital in June 2013. It concluded that the Company still has more capital than it requires and has decided to conduct a further re-purchase and cancellation of 3.5 million £1 shares, which will bring the total value of shares re-purchased to £8.5 million. This transaction is expected to take place later this year as the States Trading Companies (Bailiwick of Guernsey) Ordinance, 2001 decrees that such a return of capital to the States as our shareholder is conditional on express authorisation by resolution of the States of Deliberation.

PENSION

Through the pension sub-committee of the Board, the Company has been actively participating in the Pension Review Group's (PRG) consultation on the future structure of the public sector pension scheme (the "Scheme").

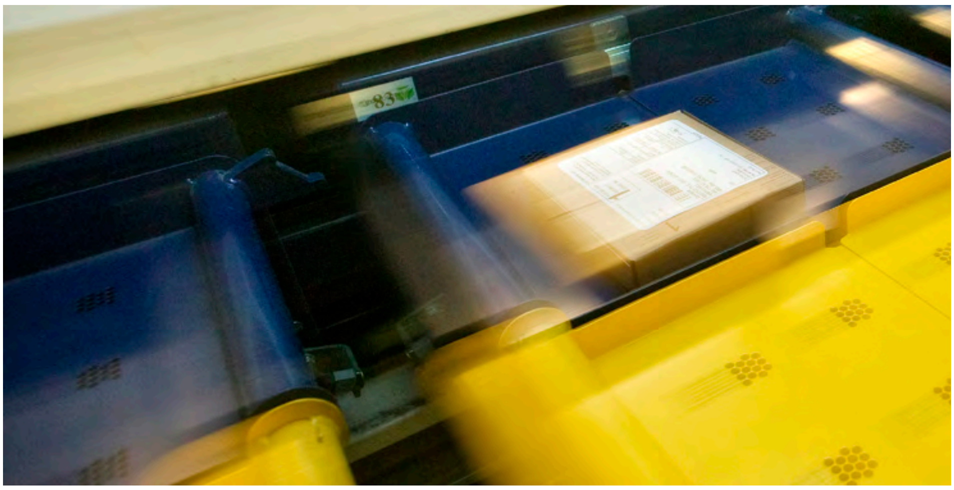
The Board of Guernsey Post wants to see change as the pension scheme liability is open-ended and costs are likely to rise significantly over time as longevity increases. Moreover, Guernsey Post has no control over this position as it is a passive member of the Scheme. The Board has previously stated that it regards the current employer's contribution rate of 15% as the maximum that can be sustained by its activities. Anything more is unaffordable, given the uncertain future of the postal market.

It is against this background that the Board is profoundly disappointed with the lack of progress made by the PRG in establishing the framework for change with public sector employees. Negotiations appear to have stalled, and there doesn't seem to be any clarity regarding their future course. The Board desires change, and the proposals made by the PRG (CARE, higher employee contributions, lower investment return assumptions, linkage of retirement age to State pension age) would certainly help Guernsey Post in ensuring a secure and sustainable service platform going forward.

The imperative for change has been made even starker by the funding valuation of Guernsey Post's pension scheme, commissioned by the Board at 31st March 2013. This indicates that under prudent assumptions the funding deficit in the Scheme exceeds £1m and the required future employer contribution rate will exceed 19%, which is wholly unsustainable. If Guernsey Post were to move to the recommended new public sector pension scheme, the future employer contribution rate would be closer to 10%. This neatly illustrates the scale of the problem and the urgency to address it.

REGULATION

There have been a number of changes to the regulatory model over the last year which in part is recognition of the significant market



pressures facing the business. The price control process has effectively been removed, and the annual licence fee has been halved to £90k.

Despite this positive development it is still the view of the Board that further changes are required. We believe that the scale of the reduced licence fee is disproportionate to the work carried out by CICRA and that the processes are effectively a duplication of scrutiny which already exists in the form of constructive pressure from customers, consumer bodies and our Shareholder. The Board will continue to make the case for change to Treasury & Resources and Commerce & Employment who are in the process of jointly reviewing the regulatory model.

> **Despite dealing with the challenging commercial realities and the need to make significant changes to our cost base, the Board has maintained a strong focus on the quality of our services.**

STAKEHOLDERS

Despite dealing with the challenging commercial realities and the need to make significant changes to our cost base, the Board has maintained a strong focus on the quality of our services. In this regard our work with consumer groups Postwatch and the Alderney Postal Partnership Board has continued to be extremely valuable. Both groups have represented the full spectrum of consumer interests and have continued to provide us with constructive and valuable feedback

I am delighted to report that Guernsey Post has been awarded the highest Investor in People (IIP) accreditation, the Gold standard. As one of just a small number of local businesses to achieve IIP accreditation and the even smaller number who achieve the Gold standard, we are extremely proud of our achievement. The award is appropriate recognition of the hard work and dedication of our employees and their positive impact on our overall performance.

THE BOARD

There have been no personnel changes to the Board over the last twelve months and this stability has been an important factor in helping the business through such a challenging period. Our Finance Director Richard Hemans will be leaving the business in July, in pursuit of fresh career challenges and I would like to place on record our thanks for his competent and diligent contribution to the Board over the last five years.

The Board has a robust strategic plan in place which combined with a strong focus on corporate governance and risk management, means we can be confident of overcoming future challenges and securing sustainability for the business.

D R Jehan
Chairman
June 2013

CHIEF EXECUTIVE'S REPORT

Under any other circumstances a 37% reduction in revenue over a twelve month period would be the prelude to a business in crisis. For Guernsey Post that is anything but the case and our employees should feel immensely proud that their actions and commitment have resulted in an excellent financial performance over the year.

The loss of LVCR compounded by sustained core volume decline has required us to make significant savings, which we have largely achieved by improving our efficiency and reducing our headcount accordingly over the last two years.

As a result of the successful deployment of our £4m change programme all of the key measures are currently positive, costs are down, profitability has improved and quality of service remains high. The business is in good shape and is well prepared to face future challenges.

POSTAL BUSINESS

Consumers continue to move towards social media as their preferred method of communication, and businesses similarly are using the internet to transact with their customers. Traditional postal services in this respect are under real threat. Underlying mail volumes, excluding bulk mail, declined by 11% in 2012, a consistent trend which has seen a 40% reduction over the last five years. These trends will almost certainly continue at a similar rate over the coming years.

Conversely the technology that threatens the very core of the postal business is also an exciting opportunity. Internet shopping continues to grow at an exceptional rate and Guernsey Post continues to play a key role in the supply chain for Bailiwick customers. Parcel volumes increased by 13% last year, which is a combination of organic growth and new business. We have continued to work closely with our colleagues at Jersey Post in order to offer customers a much needed single delivery proposition across the Channel Islands.

Whilst the actual volumes of parcels are comparatively much less significant than the number of letters in the mails business, the scale of forecast growth is sufficient for us to be optimistic about the future. Online shopping is expected to account for 22% of retail spending in the UK by 2018, compared to 12.7% in 2012. We expect our parcel volumes to increase at a similar rate over this period.

Despite the loss of seven of the top ten bulk mailers over the last year, all of whom have relocated to other jurisdictions, customer retention has been an important and very successful aspect of our strategy. In spite of the loss of LVCR our performance means that we are still a key partner of the market leaders in the personalised greetings card industry. In many ways this industry and its reliance on postal services epitomises the very opportunities that exists for our business in the coming years as the technology revolution gathers pace.

Although International bulk mail volumes fell in 2012/13, their performance was more resilient than UK bulk mail and we expect strong growth over the coming year. We have improved our product portfolio, providing customers with a wide range of choice both in terms of price and service. New services into Europe are now well established and we are actively seeking to introduce further improvements over the coming year.

PHILATELIC

The Philatelic business has also performed extremely well in a challenging and competitive environment. Our high quality and innovative products have been well received by our customer base and the business unit exceeded expectations in terms of its overall profitability. In particular the launch of our first augmented reality stamp represented a significant milestone in the evolution of our product range, opening up sales opportunities to a new and diverse collector base.

> Online shopping continues to grow at an exceptional rate and Packet and Parcel deliveries are very much the future for our business.

FOREIGN EXCHANGE

Foreign Exchange sales have declined by 6% over the last year, a direct reflection of the challenging economic circumstances and falling visitor numbers to the Island. In the context of these challenges the overall performance of Batif has been positive, particularly in comparison with the UK market where revenue decline has been even more severe. Batif remains an important strategic asset for the business and continues to make a significant contribution to the overall profitability of the Company.

OUTLOOK

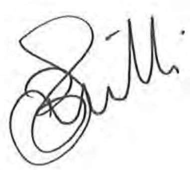
We have for many years enjoyed a mutually supportive and beneficial relationship with our principal trading and service partner, Royal Mail. That organisation is in the midst of major change and is likely to fall under new ownership within the near future. This represents a significant source of uncertainty for Guernsey Post, but we are monitoring developments closely and will strive to ensure that the partnership remains healthy and balanced for both parties.

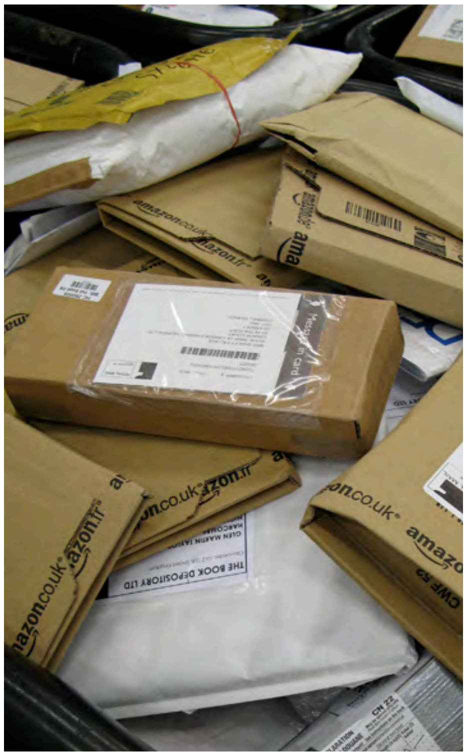
The challenges facing the business over the next few years are no less severe than those we have experienced in recent times and it is also becoming increasingly difficult to mitigate the impact of declining revenues with further efficiencies, certainly on the scale of those already achieved. Our strategy therefore is very much focused on revenue growth opportunities, a number of which are outlined in this report. With that growth is also a requirement for the organisation to evolve and restructure in order for our products and services to remain current and meet changing customer preferences. I remain optimistic about the future for Guernsey Post.

B Smillie

Chief Executive

June 2013





FINANCE DIRECTOR'S STATEMENT

PROFIT AND LOSS ACCOUNT

I am delighted to report a healthy profit of £0.7m for the financial year ending 31 March 2013, which is an improvement of £0.2m on the prior year. Indeed, this is an outcome that we could not have predicted at the start of the year when we confronted the crippling loss of LVCR. However, our swift and comprehensive response to the withdrawal of LVCR has enabled us to surpass all expectations and we are therefore very proud of the result.

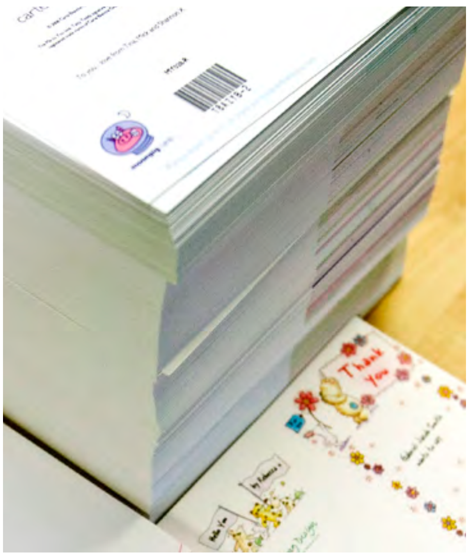
2012/13 has been one of the most difficult years in Guernsey Post's history. Not only has the Company faced the abolition of LVCR, which has caused a genuine collapse in bulk volumes destined for the UK and the rest of the world, but the recession and technological change have continued to undermine core volumes. UK, Local and International volumes all experienced double-digit declines.

Our profit after tax of £0.7m was achieved by responding to the loss of LVCR and accelerating core volumes declines with product development and cost reductions. The withdrawal of LVCR cost us over £3m in lost profits, but we enjoyed a 13% increase in packet volumes thanks to the continuing growth of online shopping and the development of new agency partnerships, and we lowered staff numbers by 12%.

Our operating performance did fall on an underlying basis, but this needs to be considered in the context of the reduction in profit of £3.3m from the withdrawal of LVCR and core volume declines. Removing the impact of FRS17 pension costs and exceptional restructuring costs, on a like-for-like basis we still made an operating surplus of over £1m, which compares with an operating surplus of £1.6m in 2011/12.

In 2012/13 our income decreased by nearly 37% to just under £32m. We suffered significant double digit falls in our UK and International bulk mail volumes, as nearly all of our bulk mail customers left the island following the UK government's decision to abolish LVCR. However, greetings card volumes continued to grow strongly and we acted decisively to retain our key customers who value our focus on cost and quality of service.

Our premium next-day time-guaranteed service was also affected as a result of the LVCR decision, with volumes falling by 10% as customers migrated to other jurisdictions. Our revenue from mail originating in the UK and the Rest of the World increased thanks to an ongoing change in the mail profile from letters to packets, with packet volumes growing by 13%. Core mail volume declines have steepened with UK, Local, International and Jersey all suffering double-digit decreases. Stamped, metered and PPI volumes all experienced double-digit declines as a result of the loss of LVCR, the recession, electronic substitution and the consolidation of operations for a number of companies away from Guernsey.



Expenditure decreased by just over 37% to £31.7m. Royal Mail charges and conveyance costs fell in line with lower bulk volumes, whilst staff expenditure dropped by £2.3m as we reorganised the business to meet falling activity levels. The number of full-time equivalent employees fell from 253 to 222. Excluding redundancy costs from 2011/12, the decline in payroll costs was £1.6m, which equates to a 'real' saving of nearly £2m. This is a significant reduction, but was necessary to ensure the business remained viable in the context of the new and ever–changing circumstances facing it.

We also succeeded in reducing non-staff overheads, which fell by over £0.3m thanks to the reimbursement by CICRA of nearly £0.15m of licence fees, from 2012/13 and prior years, which were recognised as excessive by the regulator in relation to the work they performed. We recognise that future licence fees have been lowered by CICRA, but expect them to decrease even further to ensure there is greater alignment between the cost of regulation and the value added by the process. Furthermore, we controlled tightly our other discretionary costs and achieved significant savings in most areas.

BALANCE SHEET

Our balance sheet remains strong although shareholders' funds decreased by £3.1m from £18.5m to £15.4m. The main driver for this reduction was the £5m return of capital to our shareholder Treasury & Resources in January 2013, which was offset by the strong profit and a slight improvement in the pension scheme deficit.

We have built strong relationships with our key customers and there is still further growth to come from the international bulk mail and greetings card markets.

At the end of 2012, the Board undertook a comprehensive review of the Company's cash position, future profitability and cash flows, major risks and funding requirements over the medium term. The Board concluded that the Company had surplus capital that it could not profitably deploy and that it would be more efficient to return it to the shareholder.

This review included a commitment to assess the Company's capital position at the end of every financial year, which the Board accordingly did again in June 2013. In the light of the successful response to the loss of LVCR and balanced against the major risks the Company still faces, the Board considered the medium-term financial performance and funding requirements of Guernsey Post, and approved a further return of £3.5m of surplus capital to Treasury & Resources. This will again be implemented through the structure of a share buy-back and is expected to take place in the final quarter of 2013, subject to the agreement of the States of Deliberation.

The Company still has significant financial flexibility and solid asset backing, with over £12m of cash and £12m of fixed assets, including a modern, high-specification building on the outskirts of St. Peter Port. This will enable us to address with confidence the realisation of any key risks and to take advantage of any opportunities that may present themselves.

The net pension liability under FRS17 fell by £0.5m from £9.8m to £9.3m. This was the result of strong investment returns offset slightly by the higher cost of benefit accrual. Whilst this improvement is positive, the deficit is still huge and the Board remains extremely concerned about the impact that the deficit has on the Company's profitability and long-term financial position.

Indeed, through the pension sub-committee of the Board, the Company has been actively participating in the Pension Review Group's (PRG) consultation on the future structure of the public sector pension scheme.

The Board of Guernsey Post wants to see change because the pension scheme liability is open-ended and costs are likely to rise significantly over time as life expectancy continues to improve. Moreover, Guernsey Post has no control over this position as a passive member of the Scheme. The Board has previously stated that it regards the current employer's contribution rate of 15% made by the Company as a maximum, and anything more is unaffordable given the Company's market and financial constraints.

It is against this background that the Board is profoundly disappointed with the progress made by the PRG in establishing the framework for change with public sector employees. Negotiations seem to have stalled, if ever there was a remit for them in the first place, and there is no clarity regarding their future course. The Board desires change, which would benefit not only Guernsey Post but also the Island, and the proposals made by the PRG (CARE, higher employee contributions, lower investment return assumptions, linkage of retirement age to State pension age) would certainly enable Guernsey Post to achieve most of its objectives to secure the future operational viability of this Company.

The imperative for change has been made even starker by the funding valuation of Guernsey Post's pension scheme commissioned by the Board at 31st March 2013. This indicates that under prudent assumptions the funding deficit in the Scheme exceeds £1m and the required future employer contribution rate would exceed 19%, which is unsustainable. Interestingly, if Guernsey Post were to move to the proposed new public sector pension scheme, the future employer contribution rate would be closer to 10%. This neatly illustrates the urgency and scale of the problem.

CASH FLOW STATEMENT

The Company consumed £3.8m of cash during the year, decreasing its cash reserves to £12.3m. This is mainly the result of the return of capital to Treasury & Resources mentioned above. Operating cash flow was very strong at just under £1m as the Company made significant profits before major non-cash items such as depreciation, amortisation and FRS17 adjustments. There was little capital expenditure incurred during the year and a small dividend paid of £0.1m.

OUTLOOK

2013/14 will be the first year that we feel the full impact of the loss of LVCR because many bulk mailers remained well into 2012/13. Nonetheless, we are still expecting to make a modest operating profit before FRS17 in 2013/14 and to increase profits gradually over the next three years as we develop the business further and implement new cost reduction initiatives.

I remain positive and optimistic about the prospects for Guernsey Post. We have built strong relationships with our key customers and there is still further growth to come from the international bulk mail and greetings card markets. We are benefiting from robust growth in packet volumes as online retail grows and there are always opportunities to improve the effectiveness and efficiency of our operations. The loss of LVCR and the decline in core volumes, along with the unsustainable pension scheme deficit, are major challenges for the Company, but we can certainly overcome them and build a successful future.

R Hemans

Finance Director

June 2013

BOARD PROFILE

Dudley Jehan | Chairman

Born and educated in Guernsey, Dudley Jehan trained as a Meteorologist with the Air Ministry, working at Heathrow and Guernsey Airports before joining the British Antarctic Survey in 1960. During his four-year posting he was appointed Base Commander Halley and was awarded a Polar Medal by Her Majesty the Queen for outstanding contribution to science and discovery.

On returning to Guernsey he began a career in commerce, retiring in 2003 as Chief Executive of the Norman Piette Group of eight Channel Island trading companies serving the construction and home improvement sectors. He remains NP Group's Chairman today.

He was appointed the first Chairman of Guernsey Telecoms Limited, has held a number of non-executive directorships and has been a non-States Member for over 25 years. He is currently a member of the Housing Department.

Boley Smillie | Chief Executive

Born and raised in Guernsey, Boley Smillie joined Guernsey Post in 1991 straight from his secondary education at La Mare de Carteret School. The subsequent twenty two years have seen him gain a wide range of experience in different roles, rising through the ranks of the Company. Initially employed as a clerical assistant he moved to Customer Services, then on to Logistics before being promoted to Head of Letters and Parcels in 2004. He became Operations Director in 2007 and an Executive Director in April 2010. In July 2010 he was appointed interim Chief Executive before taking the role on a permanent basis in September 2010.

During this time he has added to his hands on experience by undertaking a number of professional qualifications, including certificates in marketing and business and finance. Most recently he was awarded the certificate in company direction from the Institute of Directors.

Richard Hemans | Finance Director

Richard Hemans studied English Literature and French at university before returning to Guernsey in 1996 to train as a chartered accountant with BDO Reads. He qualified in 1999 and after travelling for six months he joined Guernsey Telecoms as the Financial Accountant. Having worked on the commercialisation of Guernsey Telecoms, he then moved to the Jacksons Group as the Financial Controller before setting up as a freelance accountant working for a variety of clients in the retail, financial services and media industries.

He wrote a weekly business column for the Guernsey Press called 'The Mercury Column' and also set up a Channel Islands business brokerage to facilitate the sale and purchase of businesses in the islands, which he sold in 2008.

In 2006, he was appointed the Finance Director of one of his clients and remained there to oversee the growth of the company and the establishment of the finance function. He joined Guernsey Post in early 2008.

Andrew Duquemin | Non-Executive

Andrew Duquemin has a degree in Accounting and Finance and qualified as a Chartered Accountant in 1983. He has extensive experience in the listing of companies on both the London Stock Exchange and The Channel Islands Stock Exchange. He is also a director of Corporate Consultants Limited, a Guernsey based consultancy business that has provided corporate finance and management consultancy services since 1991.

He is Chairman of Elysium Fund Management Limited, a company providing fund management, administration and corporate finance services to a range of funds and trading companies. Elysium was formed in October 2006 to complete the management buyout of the business of Collins Stewart Fund Management Limited, a Guernsey registered company and wholly owned subsidiary of Collins Stewart Tullett plc, where Andrew was managing director.

Andrew sits on the boards of several local trading companies, a London-based investment bank and a London-listed hedge fund company. He is also a Fellow of the Chartered Institute for Securities & Investment and holds the advanced diploma in Corporate Finance.

BOARD PROFILE

Steve Hannon | Non-Executive

Steve Hannon has over 40 years experience in the postal industry. For the majority of that time he worked for Royal Mail where he managed several multi million pound, high profile national projects including the introduction of postal automation, a new rail, road and air network, rationalising and revamping London's mail centre infrastructure and planning the nationwide introduction of the single letter delivery.

He also spent a two-year period as a divisional General Manager responsible for a workforce of 13,000 people and an annual budget of £400m. During this time he covered the complete range of management functions embracing sales, customer services, finance, human resources, planning and operations.

Since leaving Royal Mail in 2003 he has undertaken consultancy work in the postal field and became a director of Postal and Logistics Consulting Worldwide. He was appointed Chief Executive of the Company in 2008.

Between July 2006 and February 2007 he undertook the role of Interim Chief Executive of Guernsey Post.

Simon Milsted | Non-Executive

On qualification as a Chartered Accountant in 1982 Simon Milsted joined the London City office of Price Waterhouse during which time he was engaged on a series of special assignments for the Bank of England. Two consecutive assignments took him to the West Country, following which he moved his young family westwards transferring permanently to Price Waterhouse's Bristol office.

In 1988, Simon co-founded an independent firm of Chartered Accountants that soon became one of the fastest growing and most well respected independent firm of advisers in the South West, bringing a high level of specialist and consulting advice to the owner-managed business community across the region.

In 1995, Simon invested in and became non executive chairman of the BSI Group, a business process outsource specialist in the business travel sector, which became the European leader in its field. Over more recent years, Simon has held office as Regional President of the Institute of Chartered Accountants in England and Wales, sat on a number of Government sponsored business support bodies and was a governor and non-executive treasurer of a leading South West public school.

Since his move to Guernsey in 2010, Simon has pursued an active engagement with businesses and not for profit organisations on the Island both in an advisory capacity and as principal.

Stuart Le Maitre | Non-Executive

Stuart Le Maitre was born and educated in Guernsey. Following a brief period of employment at the Guernsey Post Office he studied in Bristol and obtained a degree in Education and a post graduate qualification in Careers Guidance. He held a senior position in the Careers Service at Buckinghamshire County Council for five years before returning to join the Civil Service in Guernsey, and held senior positions for the next 20 years.

During this time, his responsibilities included the development and oversight of departments responsible for industrial relations and employment legislation, trading standards and consumer affairs, health and safety in the work place and initiatives to support the development of the non-finance sector of the Island's economy. Having worked on the development of the regulatory

framework for the Bailiwick of Guernsey and the establishment of the Office of Utility Regulation, he was also involved in the commercialisation of the States' Trading Utilities.

On leaving the Civil Service, Stuart undertook a variety of Consultancy assignments and in 2006 was appointed as Chief Operating Officer with responsibility for the set up phase of new local mobile telephone company. More recently he held the position of Chief Executive of the Medical Specialist Group in Guernsey until he resigned from this post in June this year. He has recently taken up the position of Managing Director of the Guernsey Enterprise Agency and also holds other local board positions.

CORPORATE GOVERNANCE REPORT

COMPLIANCE

The Combined Code on Corporate Governance 2006 (the Code) outlines the main principles and provisions that companies should adopt in relation to corporate governance. This report describes Guernsey Post's compliance with the Code. Guernsey Post is committed to the development of a sustainable and profitable business that benefits all stakeholders, which includes achieving the highest standards of corporate governance for our Shareholder, the States of Guernsey.

Guernsey Post has signed a Memorandum of Understanding with Treasury & Resources that sets out the rights, expectations and duties of both parties and includes the requirement to comply with best practice on corporate governance. Guernsey Post has continued to work hard on its corporate governance programme during the financial year ending 31 March 2013, and the achievements are summarised in this report.

THE BOARD

DIRECTORS

The Board's role is to provide entrepreneurial leadership of the Company within a prudent and effective framework of risk management and internal control. The Board is responsible for setting and implementing strategy, allocating the necessary human and financial resources to meet the Company's objectives and monitoring the performance of management against those objectives. The Board is collectively accountable for the success of the Company, sets its values and standards and takes decisions objectively in the interests of the Company, its shareholders and other stakeholders.

Non-executive directors help to develop and challenge the Company's strategy. They evaluate the performance of management and monitor the reporting of performance. They consider the integrity of financial information and the strength of financial controls and risk management systems. They oversee executive remuneration and play the main role in the appointment, removal and succession planning for executive directors.

Matters referred to the Board are governed by a scheme of delegated authorities that provides the framework for the decisions to be taken by the Board, those which must be referred back to our Shareholder and those which can be delegated to Committees of the Board or senior management.

There were six board meetings held during 2012/13. If a Board member cannot attend a meeting, he or she receives a copy of the agenda and the accompanying papers in advance of the meeting and is invited to comment on the matters to be discussed.

The names of the members of the Board Committees are set out on pages 18 and 19, together with details of their background. The Board Committees have authority to make decisions according to their terms of reference.

CHAIRMAN AND CHIEF EXECUTIVE

Guernsey Post has a non-executive Chairman and a Chief Executive. There is a clear division of responsibility between the two positions, with the Chairman responsible for the running of the Board and the Chief Executive responsible for the running of the Company's business.

Dudley Jehan spends, on average, 1 day per week in his role as Chairman. He is also Chairman of the Norman Piette Group. The Board considers that his external directorships do not make conflicting demands on his time as Chairman.

Andrew Duquemin is the senior independent director and is available to talk to our Shareholder if it has any issues or concerns.

BOARD BALANCE AND INDEPENDENCE

Throughout the year the Company has had a balance of independent non-executive directors on the Board who ensure that no one person has disproportionate influence. All the non-executive directors bring with them significant commercial experience from different industries, which ensures that there is an appropriate balance of skills on the Board.

There are currently five non-executive directors and two executive directors on the Board, which is under review with the objective of increasing the number of executive directors.

APPOINTMENTS TO THE BOARD

Recommendations for appointments to the Board are the responsibility of the Nominations Committee, which has recently revised the procedures and criteria it follows for the selection of new board members. The appointment of non-executive directors has to be ratified by the States of Deliberation.

The Nominations Committee meets quarterly to consider the balance of the Board, job descriptions and objective criteria for board appointments and succession planning.

INFORMATION AND PROFESSIONAL DEVELOPMENT

For each scheduled board meeting the Chairman and the Company Secretary ensure that, during the week before the meeting, the directors receive a copy of the agenda for the meeting, company financial, strategic and operating information and information on any other matter which is to be referred to the Board for consideration. The directors also have access to the Company Secretary for any further information they require. In the months where there is no scheduled board meeting, the directors receive the prior month and cumulative company financial and operating information.

All newly appointed directors participate in an extensive internal induction programme that introduces the director to the Company and includes visits to key stakeholders. The Company Secretary gives guidance on board procedures and corporate governance.

The Company Secretary, who is appointed by the Board and is also the Finance Director and an Executive Director, is responsible for ensuring compliance with board procedures. This includes recording any concerns relating to the running of the Company or proposed actions arising there from that are expressed by a director in a board meeting. The Company Secretary is also secretary to the Remuneration and Nomination Committees. The Company Secretary is available to give ongoing advice to all directors on board procedures, corporate governance and regulatory compliance.

ATTENDANCE AT BOARD AND BOARD COMMITTEE MEETINGS

Attendance during the year for all board and board committee meetings is given in the table below:

ATTENDANCE AT BOARD COMMITTEE MEETINGS (A)

	Board	Audit Committee
Dudley Jehan	6/6	
Boley Smillie	6/6	
Richard Hemans	6/6	1/1
Steve Hannon	6/6	
Andrew Duquemin	5/6	1/1
Simon Milsted	6/6	1/1
Stuart Le Maitre	6/6	

	Nominations Committee	Remuneration Committee
Dudley Jehan		
Boley Smillie		
Richard Hemans		
Steve Hannon	3/3	3/3
Andrew Duquemin		
Simon Milsted		
Stuart Le Maitre	3/3	3/3

(A) The first figure represents attendance and the second figure the possible number of meetings e.g. 5/6 represents attendance at 5 out of a possible 6 meetings. Where a director stepped down from the Board or a Board Committee during the year, or was appointed during the year, only meetings before stepping down or after the date of appointment are shown.

PERFORMANCE EVALUATION

The Board undergoes an annual evaluation of its performance. In July 2012, the Board undertook a review of its effectiveness. The results were positive and higher than the last evaluation in 2011, indicating the Board is satisfied with its performance. Some minor areas for improvement were identified, which the Board is currently implementing. The evaluation consists of a confidential questionnaire, which is independently assessed, and a report that is then submitted to the Board, followed by an open discussion facilitated by the Chairman.

ELECTION AND RE-ELECTION OF DIRECTORS

Guernsey Post Limited's articles state that a non-executive director should be proposed for re-election if he or she has been appointed to the Board since the date of the last AGM, or proposed for re-election if he or she has held office more than three years at the date of the notice convening the next AGM. The Board ensures that each non-executive director submits himself or herself for re-election by shareholders at least every three years.

Non-executive directors serve the Company under letters of appointment, which are generally for an initial three year term. Their appointment is also ratified by the States of Deliberation.

At the 2013 AGM, Andrew Duquemin is being recommended by the Board and will be proposed for re-election.

REMUNERATION

The Board recognises the importance of executive directors' remuneration in recruiting, retaining and motivating the individuals concerned. Executive directors' remuneration consists of basic salary, benefits in kind, bonus and retirement benefits. Fees for the Chairman and non-executive directors are determined by Treasury & Resources.

The Remuneration Committee, which is chaired by Stuart Le Maitre, consists of two non-executive directors and determines remuneration levels and specific packages appropriate for each executive director, taking into account the Group's annual salary negotiations. No director is permitted to be present when his own remuneration is being discussed, or to vote on his own remuneration. The Remuneration Committee considers that the procedures in place provide a level of remuneration for the directors which is both appropriate for the individuals concerned and in the best interests of shareholders.

ACCOUNTABILITY AND AUDIT

FINANCIAL REPORTING

The intention of the Annual Report is to provide a clear assessment of the performance and prospects of Guernsey Post Limited. The Company has a comprehensive system for reporting financial results to the Board. An annual budget is prepared and presented to the Board for approval. During the year, monthly management accounts, including balance sheet, cash flow and capital expenditure reporting, are prepared with a comparison against budget and prior year. Forecasts are revised quarterly in the light of this comparison and are also reviewed by the Board.

INTERNAL CONTROL AND RISK MANAGEMENT

All directors are responsible for establishing and maintaining an effective system of internal control. Whilst all elements of risk cannot be eliminated, the system aims to identify, assess, prioritise and where possible, mitigate the Company's risks. Although no system of internal control can provide absolute assurance against material misstatement or loss, the Company's systems are designed to provide the Board with reasonable assurance that assets are safeguarded, transactions are properly authorised and recorded and that material errors and irregularities are either prevented or detected within a timely period.

In 2012 the Audit Committee considered the need for an internal audit function and concluded that the financial position, size and complexity of the Company could not justify the expense, which the Board ratified. The Board is happy to continue relying on the strength of the internal control environment through updates on risk management and internal control, health and safety reports, AML and CFT compliance, monthly management information and representations from the Executive Team.

AUDIT COMMITTEE AND AUDITOR

The Board has delegated responsibility to the Audit Committee for reviewing an effective system of internal control and compliance, accurate external financial reporting, fulfilling its obligations under the law and the Code, and managing the Company's relationship with the Company's external auditor. The Committee members comprise independent non-executive directors. Andrew Duquemin, who is a qualified accountant, was appointed as the chairman of the Audit Committee and the Board is satisfied that Andrew has recent and relevant financial experience to enable the duties of the Committee to be fully discharged. Simon Milsted is the other member of the Audit Committee. Simon is a qualified accountant with wide experience of owning and managing trading companies.

The Audit Committee considered the need for an internal audit function and concluded that given the cost of resourcing the function, the assurances received through other means and the size and complexity of the Company, it was not necessary.

The Audit Committee went out to tender for the Company's external auditors during the year. Following a rigorous process that yielded three credible tenders, the Audit Committee recommended the re-appointment of KPMG on a rolling one-year basis, which was ratified by the Board and the Shareholder.

The Committee meets once a year with representatives of the Company's external auditor, and the Chief Executive and the Finance Director also attend the meetings.

SHAREHOLDER RELATIONS

The Board believes that good communication with the Shareholder is a priority. There are regular meetings between the Chief Executive and the Finance Director of Guernsey Post, and the Chief Officer and Chief Accountant of Treasury & Resources. The Company presents its strategic plan to our Shareholder for approval every year.

The Chairman and senior independent director are available to meet with our Shareholder should there be unresolved matters that our Shareholder believes should be brought to its attention. The Executive Team and the non-executive directors meet with our Shareholder at the AGM.

The date of the AGM is agreed with our Shareholder and ten days' working notice is given. The AGM is chaired by Guernsey Post, with presentations made by the Executive Team to facilitate awareness of the Company's activities and its financial performance. Our Shareholder is given the opportunity to ask questions of the Board and the Chairman of each board committee during the AGM.

COMMITTEES OF THE BOARD AND MAIN TERMS OF REFERENCE

In addition to regular scheduled board meetings, the Company operates through various board committees, of which the membership and main terms of reference are set out below (except the Audit Committee which is outlined above).

Stuart Le Maitre is the Chairman of the Nominations Committee, supported by Steve Hannon. The main terms of reference of this Committee are to review regularly the structure, size and composition of the Board and to make recommendations on the role and nomination of directors for appointment to the Board, Board Committees and as holders of any executive office. The Committee met three times in 2012/13 and all members of the Committee were present.

Stuart Le Maitre is also the Chairman of the Remuneration Committee, supported by Steve Hannon. The main terms of reference of this Committee are to determine and agree with the Board the remuneration policy for the Company's Executive Team, to approve the design of, and determine targets for, any performance related pay schemes operated by the Company and to determine the policy for, and scope of, pension arrangements for each executive director. The Committee met three times in 2012/13 and all members of the Committee were present.

Andrew Duquemin is the Chairman of the Pensions Committee, supported by Simon Milsted, the Chief Executive and the Finance Director. The main terms of reference of this Committee are to review and make recommendations to the Board on the Company's retirement and post-retirement benefit arrangements including the control and funding of such arrangements. Given the importance and scale of the pension issues facing the Company, the full Board considered regularly the pension scheme arrangements at its meetings, and the Pension Committee advised the Board on the development of strategic options to reorganise the pension scheme given the likely increase in its cost, and the uncertainty it creates for the Company.

The Committee also participated fully in the Pension Review Group's consultation on the future of the States of Guernsey's public sector pension scheme. The Committee is broadly satisfied with the Group's recommendations because they will help the Company to achieve most of its objectives, but it is very disappointed that no further progress has been made on implementing these recommendations given the urgency and significance of the problem.

DIRECTOR'S REPORT

The directors present their annual report together with the financial statements for the year ended 31 March 2013.

PRINCIPAL ACTIVITIES

The Company's principal activity is the provision of a postal service for the Bailiwick of Guernsey through a postal network and retail counter operation in accordance with the licence awarded to it by the Director General of Utility Regulation. The Company also markets its postage stamps and other philatelic products to stamp collectors worldwide.

SIGNIFICANT EVENTS

The UK Government's withdrawal on 1 April 2012 of LVCR from goods sent to the UK from the Channel Islands has had the negative impact on the Company's financial performance predicted this time last year. It has reduced income by over £18m and profits by more than £3m. The Board took swift and comprehensive action to mitigate the loss of LVCR, however, which has resulted in strong profits of £0.7m in 2012/13.

Following a comprehensive review of the Company's cash position, future profitability and cash flows, major risks and funding requirements over the medium term, the Board concluded that the Company had surplus capital that it could not profitably deploy and that it would be more efficient to return it to the Shareholder. Accordingly, the Company returned £5m to Treasury & Resources in January 2013 by way of a share buy-back.

The Board conducted another rigorous review of the Company's capital position in June 2013, and in the light of the successful response to the loss of LVCR, the key risks facing the Company and the expected future financial performance, approved the return of a further £3.5m to the Shareholder by means of a further share buy-back. This is expected to take place in the final quarter of 2013 and is subject to the agreement of the States of Guernsey.

RESULTS

The results for the year are shown in the profit and loss account on page 24*.

DIVIDEND

The directors recommend a dividend of 0.008p per ordinary share for the financial year (2012: 0.004p per ordinary share).

FIXED ASSETS

Fixed asset movements for the year are disclosed in note 7 to the financial statements.

DIRECTORS

The directors of the Company, who served throughout the year and at the date of this report, were as follows:

D R Jehan

B Smillie

R J Hemans

S Hannon

A Duquemin

S Le Maitre

S Milsted

No director has an interest either beneficially or non beneficially in any shares of the Company (2012: no interest beneficially or non beneficially).

In accordance with the Articles of Association A Duquemin is due to retire by rotation and being eligible offers himself for re election at the forthcoming AGM.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards and applicable law.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates which are reasonable and prudent;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008 and the Post Office (Guernsey) Law 1969. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

DISCLOSURE OF INFORMATION TO AUDITORS

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant information of which the Company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

AUDITORS

KPMG Channel Islands Limited has expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

B Smillie	D R Jehan
Chief Executive	Chairman

These page numbers refer to the original Financial Statements document approved by the auditors.

INDEPENDENT AUDITOR'S REPORT

KPMG

20 New Street, St. Peter Port, Guernsey, GY1 4AN

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GUERNSEY POST LIMITED

We have audited the financial statements of Guernsey Post Limited (the "Company") for the year ended 31 March 2013 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards.

This report is made solely to the Company's members, as a body, in accordance with section 262 of the Companies (Guernsey) Law, 2008 and section 10(1) of the Post Office (Guernsey) Law, 1969. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Statement of Directors' Responsibilities set out on page 21*, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2013 and of its profit for the year then ended;
- are in accordance with United Kingdom Accounting Standards and
- comply with the Companies (Guernsey) Law, 2008.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- the Company has not kept proper accounting records; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

KPMG Channel Islands Limited

Chartered Accountants

**These page numbers refer to the original Financial Statements document approved by the auditors.*

GUERNSEY POST

PROFIT AND LOSS ACCOUNT

For the year ended 31 March 2013

	Notes	**31 March 2013 £'000**	31 March 2012 £'000
Income		**31,978**	50,548
Expenditure		**(31,710)**	(50.517)
Operating profit	2	**268**	31
Other income			
Interest receivable	3	**416**	396
Rents receivable		**62**	65
Profit on ordinary activities before net loss on pension scheme		**746**	492
Net loss on pension scheme		**(190)**	(135)
Profit on ordinary activities before taxation		**556**	357
Taxation credit	4	**129**	134
Profit for the financial year		**685**	491

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 March 2013

	Notes	**31 March 2013 £'000**	31 March 2012 £'000
Profit for the financial year		**685**	491
Actuarial gain/(loss) recognised in the pension scheme	17	**1,600**	(3,582)
Dividend paid	5	**(89)**	-
(Decrease)/increase in deferred tax asset on actuarial gains and losses	12	**(320)**	716
Total recognised gains and losses relating to the year		**1,876**	(2,375)

All activities derive from continuing operations

The notes on pages 19 to 31 (*27 to 46) form an integral part of these financial statements.

**These page numbers refer to the original Financial Statements document approved by the auditors.*

FINANCIAL STATEMENTS

BALANCE SHEET

As at 31 March 2013

	Notes	**31 March 2013 £'000**	31 March 2012 £'000
Fixed assets			
Intangible assets	6	**269**	323
Tangible assets	7	**11,253**	11,768
Investment properties	8	**900**	900
Investment in subsidiaries	9	**-**	-
		12,422	12,991
Current assets			
Stock		**156**	220
Debtors	10	**2,450**	5,996
Cash at bank and in hand	16	**12,336**	16,171
		14,942	22,387
Creditors: Amounts falling due within one year	11	**(2,842)**	(7,169)
Net current assets		**12,100**	15,218
Total assets less current liabilities		**24,522**	28,209
Provisions for liabilities and charges	12	**146**	101
Net assets excluding pension liability		**24,668**	28,310
Net pension liability	17	**(9,262)**	(9,780)
Net assets including pension liability		**15,406**	18,530
Capital and reserves			
Share Capital	13	**17,386**	22,386
Profit and loss account	14	**(1,965)**	(3,841)
Revaluation reserve	14	**(15)**	(15)
Shareholders' funds	15	**15,406**	18,530

The financial statements were approved by the Board of Directors and authorised for issue on 24th June 2013.
They were signed on its behalf by:

B Smillie
Chief Executive

DR Jehan
Chairman

The notes on pages 19 to 31 (*27 to 46) form an integral part of these financial statements.

**These page numbers refer to the original Financial Statements document approved by the auditors.*

GUERNSEY POST

CASH FLOW STATEMENT

For the year ended 31 March 2013

	Notes		**31 March 2013 £'000**		31 March 2012 £'000
Net cash inflow from operating activities	16		**992**		1,378
Returns on investments and servicing of finance					
Interest received		**382**		396	
Rent received		**62**		65	
Net cash inflow from returns on investments and servicing of finance			**444**		461
Taxation			**108**		(34)
Capital Expenditure					
Purchase of fixed assets		**(295)**		(197)	
Sale of fixed assets		**5**		-	
Net cash outflow from capital expenditur			**(290)**		(197)
Repurchase of share capital	13		**(5,000)**		-
Dividend paid	5		**(89)**		**-**
(Decrease)/increase in cash	16		**(3,835)**		1,608

The notes on pages 19 to 31 (*27 to 46) form an integral part of these financial statements.

**These page numbers refer to the original Financial Statements document approved by the auditors.*

NOTES TO THE FINANCIAL STATEMENTS (year ended 31 March 2013)

1. STATEMENT OF ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Basis of preparation

The financial statements give a true and fair view, have been prepared in accordance with applicable United Kingdom Accounting Standards and are in compliance with the Companies (Guernsey) Law, 2008.

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of freehold investment properties.

Income

Sales of stamps and the crediting of franking machines are accounted for on a receipt of funds basis. All other income is accounted for on an accruals basis.

Expenses

Postal operations expenses are charged as incurred. No provision is made for any charges which may be incurred in handling or delivering mail in respect of stamps and franking machine credits sold but unused at the balance sheet date.

Deferred Taxation

Provision for deferred taxation is made in full on timing differences which result in an obligation at the balance sheet date to pay tax at a future date, at rates expected to apply when they crystallise based on current tax rates and laws. Deferred tax assets are only recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted. The pension scheme deficit shown in the balance sheet is net of the deferred tax asset.

Pension costs

The amount charged to the profit and loss account is the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost. Such variations are charged or credited to the profit and loss account as a constant percentage of payroll over the estimated remaining working life of the scheme members. The scheme is funded with assets of the scheme held separately from those of the Company.

The employees' pension scheme is a defined benefit scheme. The Company applies Financial Reporting Standard 17, "Retirement Benefits" ("FRS 17"). In accordance with FRS 17 current service costs and any post service costs are charged to the profit and loss account, together with the finance costs and income for the scheme. Actuarial gains and losses are recognised in full in the statement of total recognised gains and losses for the period in which they occur. Pension scheme assets are measured using market values for quoted securities, the current bid price is taken as market value. Pension scheme liabilities are measured using the projected unit credit method, with an actuarial valuation being carried out each year at the balance sheet date. The retirement benefit deficit in the scheme, net of the related deferred tax asset, is recognised as net pension liability in the balance sheet.

Dividends

Dividends are accounted for when they are paid.

Stock

The cost of definitive stamps, including the non-value indicator self-stick range, is written off over the expected sales life of each type of stamp, which is unlikely to exceed three years. Commemorative stamp costs are fully written off in the year of issue.

Other stocks are valued at the lower of cost and net realisable value.

Intangible assets - goodwill

Goodwill arising on the acquisition of businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is ten years. An impairment review is carried out every year and any necessary provision made.

Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost of each asset on a straight-line basis over its expected useful economic life. A full year's depreciation is charged in the year of acquisition.

	Estimated life in years	Depreciation % per annum
Freehold land	N/A	Nil
Freehold buildings	30 - 50	2 -3.3
Plant and equipment	15	6.67
Leasehold improvements	8	12.5
Furniture and fittings, office equipment and postal machinery	3 - 13	7.7 - 33.3
Transport	5	20

Investment Properties

A full external valuation is obtained at least every five years with an interim external valuation in year 3. Interim valuations in years 1, 2 and 4 may be carried out if the directors consider it is likely that there has been a material change in value. Revaluation surpluses or deficits on individual properties are transferred to the revaluation reserve. Depreciation is not provided in respect of freehold investment properties.

Investment in subsidiaries

The investment in subsidiaries is stated at cost. The subsidiaries have not been consolidated on the basis that they are dormant, and non-consolidation does not have a material impact on these financial statements.

Foreign currency

Foreign currency held in German and Dutch bank accounts is translated at the exchange rate prevailing at the balance sheet date. Gains or losses are taken to the Profit and Loss account at the time of translation. All foreign trading transactions are translated into sterling using the prevailing rate on the date of the transaction.

GUERNSEY POST

NOTES TO THE FINANCIAL STATEMENTS (continued) (year ended 31 March 2013)

2. Operating profit

Operating profit is stated after charging:

	31 March 2013 £'000	31 March 2012 £'000
Staff costs	**10,151**	11,458
Auditors' remuneration		
Audit Fees	**30**	30
Other services	**-**	10
Amortisation of goodwill	**54**	54
Directors' remuneration	**385**	388
Restructuring costs	**-**	848
(Profit)/loss on disposal of fixed assets	**(4)**	2
Depreciation of tangible fixed assets	**809**	812

The restructuring costs relate to the voluntary redundancy programme and the ongoing reorganisation of the sorting office resulting from the abolition of LVCR and the general decline in mail volumes.

Average full time equivalent employee numbers for the period were as follows:

	31 March 2013	31 March 2012
Operational staff including postmen and women, post office counter staff and philatelic production staff	**177**	194
All other staff	**45**	59
Total	**222**	253

3. Interest receivable

	31 March 2013 £'000	31 March 2012 £'000
States Treasury	**414**	394
Other	**2**	2
	416	396

NOTES TO THE FINANCIAL STATEMENTS (continued) (year ended 31 March 2013)

4. Taxation

	Notes	**31 March 2013 £'000**	31 March 2012 £'000
Current year tax		**122**	82
Prior year tax		**(17)**	(15)
Deferred tax credit for the year	12	**(234)**	(201)
		(129)	(134)

Guernsey Post Limited as a Guernsey Utility Company regulated by the Channel Islands Competition and Regulatory Authority (formerly Office of Utility Regulation) is subject to the standard rate of income tax of 20% on its regulated income and 0% on its non regulated income. The basis of assessment to Guernsey tax continues to be on actual current year basis.

The actual tax credit differs from the expected tax charge computed by applying the standard rate of Guernsey income tax of 20% as follows:

	31 March 2013 £'000	31 March 2012 £'000
Profit on ordinary activities before taxation	**556**	357
Tax at 20%	**111**	71
Effects of adjusting items:		
Timing differences	**44**	30
Sundry adjustment to prior years' tax	**(17)**	(15)
Disallowed expenses	**14**	14
Rate differences on current tax	**(237)**	(203)
Adjustment for pension costs	**190**	170
Current tax charge	**105**	67
Deferred tax - pension deficit	**(190)**	(170)
Deferred tax - timing differences	**(44)**	(31)
Profit and loss taxation credit	**(129)**	(134)

5. Dividends on equity shares

Amounts recognised as distribution to equity holders in the period.

	31 March 2013 £'000	31 March 2012 £'000
Final dividend for the year ended 31 March 2012 of 0.004p (31 March 2011 £nil)	**89**	-

The board is proposing a final dividend of 0.008p per ordinary share for the year ended 31 March 2013.

NOTES TO THE FINANCIAL STATEMENTS (continued) (year ended 31 March 2013)

6. Intangible assets - Goodwill

	£'000
Cost	
At 1 April 2012 & 31 March 2013	543
Amortisation	
At 1 April 2012	220
Charge for the year	54
At 31 March 2013	274
Net book value	
At 31 March 2012	323
At 31 March 2013	**269**

On 1 April 2008 the Company acquired 100% of the issued share capital of BATIF Bureau de Change Ltd, for a cash consideration of £525,611 and a deferred cash consideration of £200,000. The fair value of the net assets acquired amounted to £162,431, giving rise to goodwill of £563,180. Upon acquisition, the trade and net assets of BATIF Bureau de Change Limited were transferred to Guernsey Post Limited and BATIF Bureau de Change Limited changed to a dormant company.

The sale and purchase agreement specified that the deferred cash consideration was payable in two equal instalments of £100,000 on 31 July 2009 and 31 July 2010. Payment was subject to meeting pre-determined adjusted profit targets in respect of the financial years ending 31 March 2009 and 31 March 2010. On 29 June 2009 the board approved the payment of the first instalment of £100,000 and agreed to provide in full for the second instalment of £100,000. On 27 September 2010 the Board approved both the payment of £80,000 in respect of the second instalment and the write back of £20,000 against goodwill and deferred consideration.

The carrying value of the goodwill has been reviewed during the year and the directors have determined that no impairment has taken place.

NOTES TO THE FINANCIAL STATEMENTS (continued) (year ended 31 March 2013)

7. Tangible fixed assets

	1 April 2012 £'000	Additions £'000	Written off / disposals / transfers £'000	**31 March 2013 £'000**
Cost				
Freehold land	2,505	-	-	**2,505**
Freehold buildings	8,598	7	-	**8,605**
Plant and equipment	2,662	-	-	**2,662**
Leasehold improvements	394	-	-	**394**
Furniture and fittings	289	21	(9)	**301**
Office equipment	1,570	95	(432)	**1,233**
Postal machinery	2,420	6	(23)	**2,403**
Transport	990	166	(38)	**1,118**
	19,428	295	(502)	**19,221**

	1 April 2012 £'000	Charge for the year £'000	Written off / disposals / transfers £'000	**31 March 2013 £'000**
Depreciation				
Freehold land	-	-	-	**-**
Freehold buildings	1,597	176	-	**1,773**
Plant and equipment	1,513	256	-	**1,769**
Leasehold improvements	188	50	-	**238**
Furniture and fittings	148	25	(9)	**165**
Office equipment	1,331	93	(431)	**993**
Postal machinery	2,068	93	(23)	**2,138**
Transport	815	116	(38)	**893**
	7,660	809	(501)	**7,969**
Net book value	11,768	-	-	**11,253**

Freehold land with a value of £2,505,000 (2012: £2,505,000) is not depreciated.

GUERNSEY POST

NOTES TO THE FINANCIAL STATEMENTS (continued) (year ended 31 March 2013)

8. Investment properties

	Market Value 31 March 2013 £'000	Market Value 31 March 2012 £'000
At 1 April 2012 & 31 March 2013	**900**	900

Investment properties, which are all freehold, were valued on an open market existing use basis at 6 March 2013 by Watts & Co Limited. Such properties are not depreciated.

9. Investment in subsidiaries

	31 March 2013 £'000	31 March 2012 £'000
Independent Delivery Solutions Limited	-	-
BATIF Bureau de Change Limited	-	-
	-	-

Guernsey Post Limited owns all the share capital, consisting of two fully paid up £1 shares (2012: two fully paid up £1 shares) in Independent Delivery Solutions Limited. This is a dormant company and has never traded. Guernsey Post Limited pays the administration costs for this company.

On 1 April 2008 the Company acquired 100% of the issued share capital of BATIF Bureau de Change Limited, which consists of 100 fully paid up £1 shares. Upon acquisition, the trade and net assets of BATIF Bureau de Change Limited were transferred to Guernsey Post Limited and BATIF Bureau de Change Limited changed to a dormant company. Guernsey Post Limited pays the admininstration costs for this company.

10. Debtors

	31 March 2013 £'000	31 March 2012 £'000
Trade debtors	**2,030**	5,650
Less: Provision for bad debt	**(49)**	(45)
Other debtors	**169**	27
Prepayment and accrued income	**266**	224
Interest receivable	**34**	-
Taxation recoverable	**-**	140
	2,450	5,996

NOTES TO THE FINANCIAL STATEMENTS (continued) (year ended 31 March 2013)

11. Creditors

	31 March 2013 £'000	31 March 2012 £'000
Amounts falling due within one year		
Trade creditors	**1,451**	5,026
Other creditors	**981**	1,760
Accruals and deferred income	**337**	383
Taxation payable	**73**	-
	2,842	7,169

12. Provision for liabilities and charges

	Deferred taxation - Accelerated Capital Allowances £'000	**Deffered taxation - Pension Deficit/surplus £'000**	**Total £'000**
At 1 April 2012	(101)	(2,445)	(**2,546**)
Charged to statement of total recognised gains and losses	-	320	**320**
Credit to profit and loss account	(45)	(190)	**(235)**
At 31 March 2013	(146)	(2,315)	**(2,461)**

Deferred tax in the financial statements is measured at the actual tax rates that are expected to apply to the income in the periods in which the timing differences are expected to reverse. As a Guernsey Utility Company regulated by the Office of Utility Regulation, Guernsey Post Limited is subject to tax at 20% on its regulated income and 0% on its non-regulated income.

The provision for liabilities and charges in the balance sheet excludes the deferred tax asset of £2.315m relating to the pension scheme deficit. The pension scheme deficit in the balance sheet is shown net of this deferred tax asset.

13. Share capital

	31 March 2013 £'000	31 March 2012 £'000
Authorised		
40,000 ordinary shares of £1 each	**40,000**	40,000
Allotted, called-up and fully-paid		
17,386,000 ordinary shares of £1 each	**22,386**	22,386
Opening share capital at 1 April 2012		
Repurchase of share capital	**(5,000)**	**-**
As at 31 March 2013	**17,386**	22,386

100% of the shares of the Company are owned beneficially by the States of Guernsey.

On 28 January 2013, the Board approved the re-purchase and subsequent cancellation of £5m of its share capital as a means of returning surplus cash to its Shareholder. The States Trading Companies (Bailiwick of Guernsey) Ordinance, 2001 decreed that it was conditional on express authorisation by resolution of the States of Deliberation, which was obtained on 13 December 2012.

On 4 June 2013, after the year end, the Board approved the further re-purchase and subsequent cancellation of £3.5m of its share capital. This share buy-back is subject to the approval of the States of Deliberation.

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NOTES TO THE FINANCIAL STATEMENTS (continued) (year ended 31 March 2013)

14. Reserves

	31 March 2013 £'000	31 March 2012 £'000
Profit and loss account		
Opening reserves at 1 April 2012	**(3,841)**	(1,466)
Retained profit for the year	**685**	491
Actuarial profit/(loss) for the year, net of movement in deferred tax	**1,280**	(2,866)
Dividend paid	**(89)**	-
As at 31 March 2013	**(1,965)**	(3,841)

Revaluation reserve	**31 March 2013 £'000**	31 March 2012 £'000
Reserves at 1 April 2012 & 31 March 2013	**(15)**	(15)

15. Reconciliation of movement in shareholders' funds

	31 March 2013 £'000	31 March 2012 £'000
Profit for the financial year	**685**	491
Actuarial gain/(loss) recognised in the pension scheme	**1,600**	(3,582)
(Decrease)/increase in deferred tax asset on actuarial gains and losses	**(320)**	716
Repurchase of share capital	**(5,000)**	-
Dividend paid on equity shares	**(89)**	-
Net reduction in shareholders' funds	**(3,124)**	(2,375)
Opening shareholders' funds	**18,530**	20,905
Closing shareholders' funds	**15,406**	18,530

NOTES TO THE FINANCIAL STATEMENTS **(continued)** (year ended 31 March 2013)

16. Reconciliation of operating profit to net cash inflow from operating activities

	31 March 2013 £'000	31 March 2012 £'000
Operating profit	**268**	31
Depreciation charges	**809**	812
Amortisation	**54**	54
Net pension scheme service costs	**761**	714
Decrease/(increase) in stock	**64**	(1)
Decrease in debtors	**3,440**	367
(Profit)/loss on disposal of fixed assets	**(4)**	2
Decrease in creditors	**(4,400)**	(601)
Net cash inflow from operating activities	**992**	1,378

Reconciliation of net cash inflow to movement in net funds

	31 March 2013 £'000	31 March 2012 £'000
(Decrease)/increase in cash balances	**(3,835)**	1,608
Net funds at 1 April 2012	**16,171**	14,563
Net funds at 31 March 2013	**12,336**	16,171

GUERNSEY POST

NOTES TO THE FINANCIAL STATEMENTS (continued) (year ended 31 March 2013)

17. Pension Fund

Employees of the Company, where they are eligible and have chosen to join, are members of the States of Guernsey Superannuation Scheme. This is a defined benefits pension scheme funded by contributions from both employer and employees at rates which are determined periodically on the basis of actuarial advice, and which are calculated to spread the expected costs of benefits payable to employees over the period of these employees' expected service lives. The assets of the scheme are held by the States of Guernsey and the ultimate liability to pay out any pension when it is realised lies also with the States should the Company be unable to meet its funding commitments.

The scheme has established differing terms for those who joined before 1st January 2008 and those who joined after. For pre-2008 members of the scheme the employee is entitled to a retirement benefit of 1/80th of final salary for each year of membership of the scheme up to a maximum of 45 years on reaching 65 years of age. Additionally a lump-sum payment is paid based on 3/80th of final salary for each year of employment. For members who joined after 1 January 2008 the benefit entitlement accrues at 1/60th of final salary but no lump sum automatically accrues. A lump sum is achievable by commuting part of the pension entitlement. The take up of this commutation into lump sum cannot be known but an assumption based on a prudent forecast has been adopted. This assumes that a 75% commutation will be requested by members. The scheme is a funded scheme. The most recent actuarial update of scheme assets and the present value of the defined benefit obligation was carried out at 31 March 2013 by Mrs D Simon, Fellow of the Institute of Actuaries.

The valuation used for FRS17 disclosures has been based on a full assessment of the liabilities of the Fund. The present values of the defined benefit obligation, the related current service cost and any past service costs (if applicable) were measured using the projected unit method.

The amounts recognised in the Balance Sheet are as follows

	31 March 2013	31 March 2012
	£'000	£'000
Fair value of Fund Assets	**33,395**	29,882
Present value of funded obligations	**(44,972)**	(42,107)
Deficit in the scheme	**(11,577)**	(12,225)
Related deferred tax asset	**2,315**	2,445
Net pension liability	**(9,262)**	(9,780)
Amounts in the Balance Sheet		
Assets	-	-
Liabilities	**(9,262)**	(9,780)
Net pension liability	**(9,262)**	(9,780)

The amounts recognised in the Profit and Loss account are as follows:

	31 March 2013	31 March 2012
	£'000	£'000
Current service cost	**1,776**	1,805
Interest on obligation	**1,965**	2,013
Expected return on Fund assets	**(1,775)**	(1,878)
Expense recognised in the Profit and Loss	**1,966**	1,940
Actual return on Fund assets	**3,154**	(62)

NOTES TO THE FINANCIAL STATEMENTS **(continued)** (year ended 31 March 2013)

17. Pension fund - continued

Changes in the present value of the defined benefit obligation are as follows:

	31 March 2013 £'000	31 March 2012 £'000
Opening defined benefit obligation	**42,107**	36,895
Service cost	**1,776**	1,805
Interest cost	**1,965**	2,013
Contributions by members	**418**	467
Actuarial Losses/(Gains)	**(221)**	1,641
Benefits paid	**(1,073)**	(714)
Closing defined benefit obligation	**44,972**	42,107

Changes in the fair value of Fund assets are as follows:

	31 March 2013 £'000	31 March 2012 £'000
Opening fair value of Fund assets	**29,882**	29,101
Expected return	**1,775**	1,878
Actuarial (Losses)/Gains	**1,379**	(1,940)
Contributions by employer	**1,014**	1,090
Contributions by members	**418**	467
Benefits paid	**(1,073)**	(714)
Closing fair value of Fund assets	**33,395**	29,882

Analysis of amounts recognised in statement of total recognised gains and losses

	31 March 2013 £'000	31 March 2012 £'000
Total Actuarial Gains/(Losses)	**1,600**	(3,582)
Total Gains/(Losses) in statement of total recognised gains and losses	**1,600**	(3,582)
Cumulative amount of losses recognised in statement of total recognised gains and losses	**(5,955)**	(7,555)

Guernsey Post expects to contribute £933,677 to the Fund from 1 April 2013 to 31 March 2014.

GUERNSEY POST

NOTES TO THE FINANCIAL STATEMENTS (continued) (year ended 31 March 2013)

17. Pension fund - continued

The major categories of Fund assets as a percentage of the total Fund assets are as follows:

	31 March 2013	31 March 2012
	%	%
Equities	**69**	67
Gilts	**4**	4
Corporate Bonds	**15**	15
Other Assets	**7**	6
Property	**5**	8

Principal actuarial assumptions at the Balance Sheet date (expressed as weighted averages (where applicable)) are as follows:

	31 March 2013	31 March 2012
	% pa	% pa
Discount rate	**4.7**	4.7
Expected return on Fund assets at 31March (for following year)	**5.9**	5.9
Rate of increase in pensionable salaries	**4.35**	4.35
Rate of increase in deferred pensions	**3.6**	3.6
Rate of increase in pensions in payment	**3.6**	3.6

Mortality Assumptions

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member aged 65 will live on average until age 87 if they are male and until age 90 if female. For a member currently aged 45 the assumptions are that if they attain age 65 they will live on average until age 89 if they are male and until age 92 if female.

Description of the basis used to determine the expected rate of return on the assets

The Employer adopts a building block approach in determining the expected rate of return on the Fund's assets. Historic markets are studied and assets with high volatility are assumed to generate higher returns consistent with widely accepted capital market principles.

Each different asset class is given a different expected rate of return. The overall rate of return is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at the disclosure year end.

Amounts for the current and previous are as follows:

	31 March 2013	31 March 2012	31 March 2011	31 March 2010	31 March 2009
	£'000	£'000	£'000	£'000	£'000
Defined benefit obligation	44,972	42,107	36,895	34,476	25,115
Fund Assets	33,395	29,882	29,101	25,126	18,615
Deficit	(11,577)	(12,225)	(7,793)	(9,350)	(6,500)
Experience Gains/(losses) on Fund assets	1,379	(1,940)	1,252	4,126	(7,027)
Experience Gains/(Losses) on Fund liabilities	202	1,913	312	1,335	(658)

NOTES TO THE FINANCIAL STATEMENTS (continued) (year ended 31 March 2013)

18. Financial commitments

Capital commitments are as follows:

	31 March 2013 £'000	31 March 2012 £'000
Fixtures & fittings	**-**	97

Annual commitments under non-cancellable operating leases are as follows:

	31 March 2013 Land and buildings £'000	31 March 2012 Land and buildings £'000
Expiry date		
- within 1 year	**-**	-
- between two and five years	**11**	-
- after five years	**73**	81
	84	81

Leases of land and buildings are typically subject to rent reviews at specified intervals and provide for the lessee to pay all insurance, maintenance and repair costs.

19. Statement of control

The Company is wholly owned and ultimately controlled by the States of Guernsey.

20. Related party transactions

Through the normal course of its business activity the Company both purchases and provides services to its shareholder or entities under the controlling influence of the shareholder body. These entities include States Trading Companies, companies whose equity is wholly owned by the States, States Departments and Boards operated by the States. All such transactions have been on an arm's length basis. The total value of the sales for the year ended 31 March 2013 amount to 1.9% of total turnover (2012: 1.3%). The total value of purchases for the year amounted to 1.2% of total expenses (2012: 1.0%).

The States also provides, through its treasury department, management of the Company's liquid funds in excess of short term needs. At 31 March 2013 the balance held was £10,608,616 (2012: £14,253,218).

21. Post balance sheet event

On 4 June 2013, the Board carried out a rigorous review of the Company's capital position. In the light of the successful response to the loss of LVCR and balanced against the major risks the Company still faces, the Board considered the medium-term financial performance and funding requirements of Guernsey Post, and approved a further return of £3.5m of surplus capital to Treasury & Resources. This will again be implemented through the structure of a share buy-back and is expected to take place in the final quarter of 2013, subject to the agreement of the States of Deliberation.

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